

Exhibit 7

Scotiabank Credit Memoranda, dated April 2012

From: Edgard Vences Pacheco/GlobalRiskManagement/ScotiabankGroup
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Sent: Tuesday, April 17, 2012 6:35 PM
To: Jose I Altieri/International/ScotiabankGroup <jose.altieri@scotiabank.com>
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Bcc: evelyn.santos@scotiabank.com
Subject: Re: PR Electric Power Authority (IG 83)- annual review and increase
Attach: InlineImage4.gif; InlineImage3.gif; InlineImage2.gif; InlineImage1.gif; PR
Electric Power Auth 1035 SCC.doc; Advice and Counsel 20120417.doc

Based on your request, attached is the A&C for the annual review of captioned Borrower.

We also attached the 1035 with GRM comments for your reference.

Kind Regards

Edgard Vences
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GRM – International Credit & Country Risk Management
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Jose I Altieri/International/ScotiabankGroup
04/09/2012 04:32 PM

To
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Subject
Re: PR Electric Power Authority (IG 83)- annual review and increase

Fernando:

As discussed, please find the credit presentation with the updated information to the Business Description Appendix; profitability model will be made available on a separate cover as the Client Net tool is under maintenance.

Regards,

[attachment "1035_PREPA_March2012.doc" deleted by Edgard Vences Pacheco/GlobalRiskManagement/ScotiabankGroup]

Jose I Altieri/International/ScotiabankGroup
04/05/2012 04:02 PM

To
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Subject
PR Electric Power Authority (IG 83)- annual review and increase

Fernando:

Attached please find the 1035 for the annual review and revolving credit facility for captioned borrower. Please note the Business Description Appendix is highlighted in yellow as we have not being able to updated with the most recent information because of technical difficulties in pasting tables into the document. Also CPM model is under maintenance and will be updated accordingly. We will updated next week as soon as possible. All relevant information is included in the 1035 body.

Kindly advice,

[attachment "PREPA AFS 2011.pdf" deleted by Jose I
Altieri/International/ScotiabankGroup] [attachment "~WRD3944.doc" deleted by
Jose I Altieri/International/ScotiabankGroup]

REQUEST FOR ADVICE AND COUNSEL

Borrower: Puerto Rico Electric Power Authority (“PREPA” or the “Authority”)	Borrower IG: 83	Customer Since: 2006 Professional Counterparty: No Suitability Risk: Low Medium Reputational/Legal Risk: No	Level: RPC Submitted: April 5, 2012 Received: April 9, 2012 Presented: April 11, 2012 Last Review: May 5, 2011															
Booking Points: SBPR		RESTRICTED: (Y/N) No Due Diligence: Level 1 Structured Finance Trans: No Cross Border: No SPV/SPE: No Director/Related Party: No	Banking: SBPR GRM: ICCRM GWB: (Y/N) N															
Statutory Connection: Government of the Commonwealth of Puerto Rico																		
Business Description: Electric Utility (a Public Corporation of the Commonwealth of Puerto Rico)	REASON: <input checked="" type="checkbox"/> New: Fac. 3 <input type="checkbox"/> Increase: <input checked="" type="checkbox"/> Annual <input type="checkbox"/> Other	<table><tr><th colspan="3">Profitability</th></tr><tr><th></th><th>Existing</th><th>Proposed</th></tr><tr><td>ROEE</td><td>100%+</td><td>100% +</td></tr><tr><td>NIAT</td><td>\$2,051M</td><td>\$3,495M</td></tr><tr><td>Group ROEE</td><td></td><td></td></tr></table>		Profitability				Existing	Proposed	ROEE	100%+	100% +	NIAT	\$2,051M	\$3,495M	Group ROEE		
Profitability																		
	Existing	Proposed																
ROEE	100%+	100% +																
NIAT	\$2,051M	\$3,495M																
Group ROEE																		
Reply Requested by and Reason: Thursday April 15, 2012 <i>Monday April 16, 2012; PREPA requested the quickest turnaround possible</i>																		

TYPE OF CREDIT/ MATURITY	C/ U	AMOUNT O/S	AMOUNT AUTHORIZED	AMOUNT PROPOSED	PRICING (Refer to Pricing Appendix)	IG
1. N/R (to 6/30/2014): Our 25.76% share of a USD 29.9MM Subordinated Term Credit Facility arranged by Banco Popular de Puerto Rico (the “Agent”, or “BPPR”).	C	USD 5,193,433	USD 5,193,433	USD 5,193,433	L+ 70 bps (Tax Exempt – based on Ratings Grid)	80
2. Our 60% share of a \$500MM Senior Credit Facility with SBPR as arranger <i>CN: Tenor: 12 months Draw downs: up to 180 days*</i>	C	NIL	NIL	USD 300,000,000	L + 175 bps (Tax Exempt – based on Ratings Grid) up to 90 days; L + 200 bps > 90 days <i>Refer to Pricing Appendix</i>	83
2(a) Oper – 1yr Senior Credit Facility (“Fuel Line”) Now: to be cancelled on June 16, 2012	C	\$90,000,000	USD 150,000,000	(USD 90,000,000)	L+ 175 bps (Tax Exempt – based on Ratings Grid)	83
3. Derivates Line with a notional of up to \$375mm <i>CN: 8% PFE at 2.25 years Caps to hedge against oil prices increases</i>	U	NIL	USD 30,000,000	USD 30,000,000	LES: L + 500 bps	83
TOTAL		USD 95,193,433	USD 185,193,433	USD 335,193,433		
Committed Total		USD 95,193,433	USD 155,193,433	USD 395,193,433 USD 305,193,433		
Uncommitted Total		NIL	USD 30,000,000	USD 30,000,000		
Connection Total		USD 882,634,000	USD 996,305,000 USD 1,096,305,000**	USD1,246,305,000		

* CN: Direct advances are payable after 90 days, unless extended or rolled over for an additional period not to exceed 180 days from initial advance date.

** Includes a US\$100MM increase recently approved for Government Development Bank for Puerto Rico

SECURITY AND STRUCTURE

1. All Facilities:
- Country Tier: 2
2. Facility 1 LGD 80% Grade 7
- Unsecured (TNW of USD -347MM @ 6/30/11.) PREPA, a public corporation and an instrumentality of the Commonwealth of Puerto Rico, is the monopoly provider of electric power. All indebtedness incurred under

the Facilities are valid and binding obligations of the Borrower, payable from PREPA’s Subordinate Obligations Fund established under the Trust Agreement, dated as of January 1, 1974.

3. Facility 2, 2a & 3: LGD 20% Grade 2

- Unsecured. Under PREPA’s Trust Agreement, dated as of January 1, 1974, payments for fuel are classified as Current Expenses of the Authority and rank pari passu with the payment of all other Current Expenses, and senior to debt service payments on the long-term debt.

Structural Subordination Analysis:

USD (000's)		Source of Repayment (Water Fall)	Commitment	Balance FY11	Proposed Commitments
Senior Obligations	A) Fuel Line-SBPR	General Fund	150,000	150,000	500,000
	B) Fuel Line-Citi	General Fund	260,000	-	260,000
	C) Power Revenue Bonds	General Fund	7,780,890	7,780,890	7,780,890
	Subtotal Senior Debt		8,190,890	7,930,890	8,540,890
Subordinated Pari-Passu Obligations	C) Syndicated Facility (\$64MM N/R original amount)	Subordinate Obligation Fund	29,858	29,858	29,858
	D) R/T - Construction of Gas Pipeline	Subordinate Obligation Fund	35,000	26,485	26,485
	E) N/R - PREPA Networks	Subordinate Obligation Fund	9,890	9,890	9,890
	F) Banco Pop Gov Receivables Factoring (orig.\$41.6mm N/R)	Legislature Appropriations	10,754	10,754	21,741
	G) LC for improvements to Isabela irrigation system	Subordinate Obligation Fund	25,000	750	750
	Subtotal Subordinated Pari-Passu Debt		110,502	77,737	88,724
Total Debt			8,301,392	8,008,627	8,629,614

B) Facility closed on July 13, 2011

G) Repaid by annual appropriations from the General Fund of the Commonwealth, through an annual assignment from the Legislature. PREPA provides a second guarantee to the facility.

CN: Banking has confirmed that the Citibank’s fuel line and facility 2) will have similar conditions and will rank pari-passu. In addition Banking has advised that the pricing under Citibank’s facility is 5 bps lower (i.e., 170 bps).

Debt Service on the long-term public obligations (i.e. its Bonds *CN: Power Revenue Bonds*) are payable solely from PREPA’s revenues after payment of Current Expenses and any reserve therefore (i.e. from Net Revenue which is equivalent to EBITDA). Payments for fuel, (proposed Fac.2 *CN: Fuel Line-SBPR and Fuel Line-Citi*), as well as purchased power from the co-generators, are classified as Current Expenses and rank pari passu with the payment of all other Current Expenses and the fuel line, and senior to debt service payments on the Bonds. Fac. 1 is junior to the Power Revenue Bonds of the Authority, and ranks pari-passu with other subordinate obligations (collectively, the “Pari-Passu Obligations”). During 2011, PREPA issued \$574MM in Power Revenue Bonds Series DDD and EEE. Series EEE was issued under the Build American Bonds (BAB’s) federal program for the purpose of financing its CIP *CN: Capital Improvement Program*. Under the BAB’s, PREPA will receive a credit from the US Treasury equal to 35% of the stated interest paid on such bonds. This issuance once again confirms Borrower’s access to capital markets. Except for a subordinated facility owed to Banco Popular, which is paid from an annual appropriation by the PR Legislature, none of the PREPA’s obligations (neither senior nor subordinated) are guaranteed by the Commonwealth. Although the Proposed Commitment column reflects an increase of \$350MM for aggregate fuel facilities of \$760MM (*CN: the sum of new \$500MM fuel line facility 2) and Citi’s \$260MM fuel line*), the increase will result in a reduction on the fuel/energy payables reflected on PREPA’s balance sheet (*CN: As at June’2011, Accounts Payable were \$1,252MM*). Hence the increase does not represent a direct increase in the overall debt of the Borrower. Based on their projections, its EBITDA provides adequate debt service coverage for both its Senior and Subordinated Obligations. PREPA’s inherent monopolistic characteristics and its relationship with the government, as well as its consistent and predictable cash flow generating capacity and adequate debt service coverage gives us comfort that the Government would take all the necessary steps to shore up or cure any deficiencies rather than allowing a default on the bank facilities that could adversely affect the Commonwealth’s overall ratings.

CN: For facility 3) we note that premiums derived from the purchase of Caps will be deferred and paid monthly to the Bank over the life of the 2.25 year. Legal Counsel has confirmed that regular scheduled payments (including monthly premiums) are classified as current expenses. Hence, payment of premiums ranks pari passu with the payment of other current expenses and fuel lines (e.g., facilities 2 and 2a), and senior to debt service payments to the Power Revenue Bonds. Nevertheless, payments required under Additional Termination Events, if any, cannot be classified as current

expenses and therefore, will be payable from the subordinate obligation fund. Mitigant: Given the importance of this entity to the underlying economic stability of Puerto Rico, the probability of a near term payment default is low.

FINANCIAL COVENANTS

- Debt Service Coverage (“DSC”) ratio of at least 1.20x of debt service on the Senior Bonds and other senior indebtedness (together, the “Senior Obligations”) and at least 1.00x of combined debt service of the Senior Obligations and the Subordinated Obligations and the Facilities (the “Subordinated Obligations”). Met.

Refer to Conditions Appendix

REPAYMENT SCHEDULE						
ORIGINAL DATE	ORIGINAL AMOUNT& PURPOSE	PRESENT AMOUNT	REPAYMENT/TERMS	EXPIRY / MATURITY	ARREARS, IF ANY	N/R Fully Drawn
12/22/2006	USD 16,542,273	USD 5,818,199	Interest payable monthly. Quarterly principal payments over a 7.5-yr term/amortization as follows:	6/30/2014	NIL	Y
			Date Quarterly Amount			
			07/01/10 – 06/30/11 592,480			
			07/01/11 – 06/30/12 624,680			
			07/01/12 – 06/30/13 624,680			
			07/01/13 – 06/30/14 673,500			

MATERIAL ISSUES

- None

Banking Recommendation

The main credit risks of this Borrower are refinancing, payment default, regulatory/government risk of the Commonwealth of Puerto Rico owners, and structural risks, coupled with operational risk inherent to utility companies such as demand and capacity constraints, fuel dependency and its related costs. The inherent characteristics of the Borrower and its association to the government, its capacity to pass through the cost raw material (fuel and power purchased) and the geography where it operates as a monopoly operator, all represent strong mitigating factors in support of the associated risks to the Borrower.

We strongly support the proposed transaction based on the excellent experience with our current exposure to this Borrower and considering the mechanics of the new fuel purchase program plus the fact that the Authority has never defaulted in its payments of the fuel line or any other debt in the past. We believe that based on the IG83 rating for the Borrower, the super-seniority of this type of fuel facility over all other indebtedness of the Borrower and aggressive pricing being proposed (yielding a 100%+ ROEE on the fuel line facility), will induce the Borrower not to enter into a bidding process and be awarded the mandate to structure the facility, generating additional economics for this Bank. This is an excellent short-term opportunity to redeploy the capacity that has become available under the \$1.3 billion Commonwealth limit as the Commonwealth has repaid its \$300MM N/R facility.

Further to the aforementioned considerations, based on the inherent characteristics of the Borrower and its historic cash flows, we recommend the annual review of existing facilities (Fac. 1, 2a & 3).

Credit Unit Recommendation

GRM Recommendation

Background: PREPA is a state-owned utility, with the monopoly over the generation and distribution of electricity in Puerto Rico, with the authority to pass on higher fuel /energy costs to consumers, on a monthly basis. Electricity is produced either in company-owned generating plants (5 production facilities), or purchased via long-term power purchase contracts with the two only private power generating companies in PR, namely AES and Eco Electrica, each of which produces via non-oil generating facilities.

Industry Limit (BR 420 – Regulated Utilities): According to GRM/ICCB's records, there is insufficient room under existing

International Power Limit to accommodate requested US\$150MM increase. Accordingly, approval of proposed increased shall be subject to obtaining room under International Power Limit.

Financial Performance: 2011 audited financial statements show a 5.9% revenue growth due primarily to a 10.43% increase in rates (exclusively in the fuel adjustment surcharge) partially offset by a 3.81% decrease in energy sold (volume). Both gross profit margin and EBITDA margins have remained relatively stable (around 33% and 16% respectively) and DSC ratios have consistently remained above minimum of 1.2x (1.42x in FYE'11). Nevertheless, leverage is still high as at FYE'11: FD/EBITDA at 11.47x with FD of US\$8.1Bn. Finally, PREPA consistently reports profits before taxes; however it has not generated net profit in the past four years and as at FYE'11 its total net worth is negative US\$169MM. This is mainly due to the fact that PREPA is required to make contributions in lieu of taxes to the Commonwealth and the Municipalities applying a rate that is a percentage of gross profits as opposed to a percentage of residual profit.

Capital Expenditures: According to S&P, during the next five years, PREPA is planning to invest US\$1.7Bn in the system, having invested US\$2.5Bn in the past five years. PREPA will mainly invest: 1) US\$742.3MM to outfit 2,420 MW of oil-burning units to burn gas (about 11% of energy production); and 2) US\$814MM in transmission and distribution facilities aiming at increasing system reliability and providing alternate routes for powers. It is expected, though, that this capital investment program will continue to be funded with substantial amount of debt. However, PREPA maintains ample access to debt markets given strong links and implied support of the Commonwealth of Puerto Rico.

Cost reduction measures: Due to dependence on fuel oil (accounting for 65% of PREPA's energy production), rates have reached 23.92 cents per kilowatt-hour (kWh) in FYE'2011 (vs. 17.5 cents in FYE'2007). The conversion of the generating units to gas from oil will account for the largest component of cost reduction. Other measures include the following: a) PREPA is taking bids for additional power of renewable sources (e.g., wind, solar) and expects power from those sources to account for 10% of energy by 2016; b) PREPA expects to achieve US\$30MM additional annual savings from staff reductions, changes to retiree health benefits and reduced overtime. Management expects this cost reductions will help it maintain at least 1.2x DSC.

Upcoming elections (Nov. 2012): Banking has provided the following update: The candidates for governor for the upcoming elections in November are: Luis Fortuño (incumbent) for the New Progressive Party (NPP), Alejandro García Padilla for the Popular Democratic Party (PDP) and Juan Dalmau for the Puerto Rican Independence Party (PIP). All three parties follow democratic ideology. What distinguishes them and their respective candidates are their stances on Puerto Rico's status vis-à-vis our political affiliation to the United States: (i) the NPP seeks for PR to become the 51st state of the USA, (ii) PDP seeks to maintain the current status of being a protectorate of USA (a Commonwealth), (iii) the PIP seeks for PR to become a sovereign Government. The NPP and PDP each command approximately 45% of the electorate with the PIP making up about 5%. Gov. Fortuño is a member of the US Republican Party, while García Padilla is affiliated with the US Democratic Party. By and large, Puerto Rico is predominantly associated or shows affinity with the values and positions of the US Democratic Party (i.e. large centralized Government programs) as opposed to those of the Republican Party. In a recently published poll, Garcia Padilla was ahead of Gov. Fortuño by a double digit margin. However it would be premature at this point to definitively pick one candidate over the other. Notwithstanding, if there was to be a change in the executive branch of the Government, this Bank does not expect to be a significant change in the fiscal policies that have being implemented by the Government Development Bank (GDB) through out the various public corporations, agencies and instrumentalities. Over the last sixty years since Puerto Rico began holding elections for its representatives (the US Government and its constitution continue to in full force notwithstanding which of the parties is in control of the executive branch) there have been many changes between NPP and PDP governors and administrations, yet the overall stance is centered on the basic principle of a democratic state, further aided by the US Federal Court which has jurisdiction over the island's legal framework.

Recommendation: PREPA's goals of reducing dependence on oil and cutting operating costs will support sustainability going forward. The proposed increase falls within the RPC US\$1.3Bn authorized limit for the Government of Puerto Rico; inclusive of this request, the exposure would reach US\$1.25Bn and revert to US\$1.13Bn with the repayment by April 30, 2012 of a US\$115MM LC facility to the Commonwealth of Puerto Rico. Based on the aforementioned, as well as strong links with the Commonwealth of Puerto Rico, and seniority status of most of the exposure, we recommend:

1. 2011 Annual Review
2. Confirm Borrower IG 83
3. Confirm Facility IG 80 for subordinated facility 1) and Facility IG 83 for all other facilities
4. New Fac. 2) as presented

Subject to:

- a) Draw downs under facilities 2) and 2a) shall never exceed US\$300MM.
- b) Banking to obtain room under International Power Limit

Edgard Vences – Sr Manager

Fernando Correa – Director

LPM Supportive?	Yes		No		N/A	X	
SYNDICATIONS Recommended?	Yes		No		N/A	X	
Industry Parameters onside?	Yes		No		N/A	X	

PURPOSE AND SUMMARY OF TRANSACTION

1. **Confirm annual review of Facility 1, 2a & 3:** Fac.1 was authorized consistent with the strategic intent of PREPA, and that of the Commonwealth's overall (as recommended by Rating Agencies), to reduce the reliance on the Government Development Bank for PR (GDB) lines of credit for operating and working capital needs, as well as provider of bridge or interim capital improvement program facilities. This Facility represents a 26% participation in a syndicated facility led by Banco Popular, committed to 2014; given its contractual amortization the facility will be fully repaid at maturity. Fac. 2a is a facility originally issued to support PREPA in its fuel purchase and payment of energy from independent power producers (both classified as current expenses); Fac.2a matures in June/2012, at which point it will be cancelled and substituted by proposed Fac.3 2 herein. Fac.4 3 is a derivatives facility to trade in caps for fuel costs as part of the joint PREPA/GDB strategy to mitigate fuel volatility without having to transfer prices increased to customers.
2. **Recommend Facility 2; our 60% share (\$300MM) of a \$500M Fuel Purchase Revolving Facility:** Fac. 2 is to be used to support the newly structured fuel purchase program implemented under the guidance of the GDB as fiscal agent to the Commonwealth and its instrumentalities. Under the new program JP Morgan Global Commodities is acting as the purchasing agent for PREPA. The requested increase of up to \$500 million (*CN: US\$500MM on a best effort basis and subject to adding participant banks; SBPR's commitment is capped at US\$300MM*) is a result of the new payment terms under the program (a reduction in paying terms; **NOW:** trade date + 3 days vs. **BEFORE:** Delivery + 30 days) and any increases in fuel prices. This program enables PREPA to get the best possible price for fuel in the open market compared to the old program where PREPA received bids from various suppliers for terms of up to 12 months. The program coupled with the hedging strategies, allows PREPA to control the volatility of fuel prices without having to directly pass on to consumers cost increases. This facility, although it has the same purpose, it is being presented separate from the current Fac.2a, because of the current expense definition under PREPA's 1974 Trust Agreement. We note this Bank received a legal opinion issued by PREPA's bond counsel qualifying Fac.2a as financing a current expense and confirming its super-seniority status to the bonds. For a facility to be considered as financing a current expense and be entitled to super-seniority status over the outstanding bonds, it has to mature within 12 months of inception and at a minimum be fully cleaned-up from internally generated funds (not refinanced by another facility) or show adequate fluctuations consistent with a working capital or operating facility. If we were to present the new commitment as an increase to Fac.2a, the facility would have to have significant fluctuations on the outstanding amounts or require full payment at maturity. Since it would be overly burdensome for PREPA to fully repay the facility (i.e. \$500MM) and the Borrower will not have the ability to repay 90 days draws by June 16, 2012, we are presenting Fac.2 as a separate commitment with the condition that at any point in time, the aggregate of Fac.2 & 2a will not exceed \$500MM (*CN: including full amount of proposed syndicated loan. Likewise, draw downs under Fac. 2 and 2a granted by SBPR shall not exceed US\$300MM*). We will amend Fac.2a to become a fully amortized facility on its maturity date, with no contractual monthly amortization. However, PREPA expects to amortize the existing balance on Fac.2a by \$25MM on April, \$25MM on May with the remaining \$40MM to be repaid from funds held in escrow at GDB by June 16, 2012. The funds held in escrow will be released as part of the refinancing of debt scheduled for issuance during the month of April. This issuance is already on the calendar and the underwriters are working towards a pricing by month's end. Nevertheless PREPA has alternate resources to fully repay the remaining \$40MM. On June 17, 2012, the full commitment of Fac.2 will be available on a revolving basis until maturity. As the incumbents, we are protecting an existing asset with an increase to redeploy the available limit under the Commonwealth limit and pricing it aggressively to avoid any bid process. The proposed \$500MM commitment *cn: amount* is on a best efforts basis with a \$300MM hold level. BBVA and Firstbank have already indicated their willingness to participate in the facility.

KEY RISKS AND MITIGANTS

TRANSACTIONAL RISKS:

1. Refinancing / Repayment Risk: Fac. 1 is to be repaid from the Borrower's Net Revenues (EBITDA), and alternately from a Bond issuance or another bank syndicate. The Authority's Bond indenture requires the agency to maintain a min 1.20x DSC on its annual debt service of \$480.2MM (as of June 11, 2011), on actual and prospective issues.

- Mitigants: Historically, PREPA generated over 1.3x DSC (1.47x and 1.42x on senior and senior-subordinated debt as of June 30, 2011) on all of its Obligations and its projections show consistent DSC over 1.4x on all of its obligations. The Agency's consistent Net Revenues or EBITDA of around \$700MM provides it with adequate capacity to meet its debt service obligations, and its inherent characteristics and triple-tax exemption access to the US tax exempt markets to finance its annual capital improvement program (averaging approximately \$500mm/yr). In summary, refinancing risk is mitigated by the consistent cash flow of the Authority and its access to the capital markets.

2. Regulatory: The Authority is a public corporation owned by the Government. Thus, although increase in generation costs can be legally passed on to end users, there is the potential for political interference. Also, a reduction in PREPA's operating independence from the Commonwealth Government could lead to a negative impact on the former's finances.

- Mitigant: Both of these events are unlikely given PREPA's key role in PR's economic stability and future development. Over the years, PREPA has maintained its full operating autonomy from the Commonwealth, including during the 1970s when the Commonwealth Government faced economic difficulties, and has been allowed to operate freely.

OPERATIONAL RISKS:

1. Price Setting: The Authority has the power to determine, alter, establish and collect reasonable rates for electric service, which shall produce sufficient revenues to cover the operating costs of the Authority, the payment of the principal of and the interest on its debt, and other contractual obligations.

- Mitigant: Electric service rates consist of (i) basic charges, (ii) fuel adjustment surcharges to recover the increased cost to the Authority of fuel oil, and (iii) purchased power charges to recover the cost to the Authority of power purchased from the EcoEléctrica and AES-PR cogeneration facilities. Although the Authority has not increased the basic charge averaging 5.7 cents / kWh since 1989, the effective price of electricity has increased over this period due to fuel and other surcharges (*CN: full rate was 23.92 cents in FYE'11*). The fuel surcharges imposed in any month are based upon the most recent average historical and current oil costs of fuel oil. Purchased power (from the co-generators) charges are based on estimated purchased power costs for the current month. To the extent that such charges do not fully recover actual fuel or purchased power costs (or recover more than such costs), charges are adjusted in the succeeding months.

2. Market Demand: Demand for energy is related to the level of economic and business activity in the Commonwealth, energy costs and climatological factors, amongst others. After four years of contraction, the economical growth rate forecast for FY12 is of 0.7%.

- Mitigant: Projections of future peak energy demand prepared by PREPA show a CAGR of 1.6% over the next five years, sufficient to generate adequate Net Revenues to meet Debt Service Coverage on all of the Borrower's obligations.

3. Capacity Availability: Unlike most electric utilities in the US which are able to purchase power from neighbouring systems in the event of unscheduled outages or temporary surges in demand, the Authority, as an island utility, is not able to do so. In addition, the absence of significant seasonal variations in demand results in a relatively high load factor (78.9% in FY11), which affords the Authority less flexibility to schedule maintenance. As a result, the Authority must have greater total reserve capacity than other utilities in the US to cover instances of generating unit outages. Improvements to the Authority's generating units since the early 1990s have extended their life and increased their availability, thereby substantially improving the System's equivalent availability.

- Mitigant: The Authority's program to extend the life and increase the availability of its generating units is composed of a comprehensive preventive maintenance program and a design modification program to reduce the risk of units being forced out of service or being forced to operate at partial output. By more effectively utilizing scheduled outages, and by implementing major design modifications, the Authority has reduced the need for extended maintenance downtime and increased the overall reliability of all of its generating facilities. The two cogenerating facilities also help the Authority improve its availability. The additional reserve capacity represented by these co-generators give flexibility in scheduling maintenance periods and favorably affects PREPA's availability. As a result, total production plant availability increased from an average of 72% in fiscal year 1995, to 84% in FY11

4. Fuel Oil Dependency: Puerto Rico depends on oil imports to meet its energy needs.

- Mitigant: To reduce cost and protect the environment, PREPA has reduced the percentage of energy generated from fuel oil from 98% in 1997 to ~70%. Power purchased from EcoElectrica's LNG plant was ~15% of the electricity produced in P.R, while AES' coal plant produced ~15%. AES and EcoEléctrica contributed to the Authority's efforts towards fuel diversification and improved reliability of service. With their incorporation into the System, approximately 30% of the Authority's annual energy requirements are now being provided by non-oil-fired generating facilities. The Authority's recent load growth projections show that the Authority's current capacity is sufficient to meet short- to medium-term load growth demands. As a result, the Authority's capital improvement program in connection with its generating facilities is concentrated on maintaining its generating units and substituting older, oil-fired generation units with more efficient generating units fired by fuels other than oil. The Authority is in the late stages for the conversion its largest generation units into natural gas fired units. These would be supplied through a 91 miles long underground pipeline system, to be known as "Vía Verde", to transport natural gas to the Costa Sur generating plant, in the South, and the San Juan, Palo Seco and Arecibo (Cambalache) generating plants, in the North. The project has an estimated cost of \$450MM and is waiting for certain federal permits to commence construction. Although the pipeline project has run into legal roadblocks and opposition from local residents and environmental groups, PREPA expects to supply the Costa Sur plant with a barge of natural gas as a temporary basis until the Via Verde project is completed. The plant is expected to operate in this manner by late April/2012.

RATINGS AND MARKET CAPITALIZATION

Borrower

MRA Generated IG: 83

Current IG: 83

Recommended IG: 83

External Benchmarks & Affiliation Considerations:

Puerto Rico Electric Power Authority	<u>S & P</u>	<u>Moody's</u>
Rating	BBB+ (IG 87)	Baa1 (IG 87)
Outlook	Stable	Stable
Confirmed	March 23, 2012	March 28, 2012

Commonwealth of Puerto Rico	<u>S & P</u>	<u>Moody's</u>
Rating	BBB (IG 85)	Baa1
Outlook	Stable	Negative
Confirmed	March 8, 2012	March 6, 2012

PREPA, a public corporation with a long-term debt rating of IG87 equivalent, enjoys the highest rating of any PR government issuer, including the Commonwealth itself. PREPA is the sole provider of an essential service, substantially independent from the Commonwealth's finances, and with the authority to raise rates to maintain the utility's financial position and pass through fuel price increases. As such, it operates as a government controlled monopoly. Together with stringent operating cost controls and greater fuel efficiency with the use of natural gas, margins will be sufficient to cover its debt service at a level that exceeds the required minimum of 1.2x. However based on affiliation ties to the central government, we recommend maintaining current Borrower Rating at IG83 as generated by MRA model. Our recommendation is further supported by S&P and Moody's external assessment. Moody's credit rating considers PREPA continues to operate as the sole provider of an essential service, historically independent from the Commonwealth's finances and with liquidity support from the Government Development Bank of Puerto Rico; its board has full rate-setting authority and it can automatically pass through to customers higher fuel and energy costs on a monthly basis. More notably PREPA has also continued to better position the utility with its power resource diversity plan. S&P highlights PREPA's ability to maintain a sufficiently strong financial risk profile while continuing to fund its capital investment program with substantial amounts of debt. Supporting this is both the Authority's commitment to reduce its own operating costs and to the Puerto Rico government's commitment to honor its financial obligations to PREPA. Moreover, the utility's goal of reducing its oil dependence and improving the overall reliability and efficiency of the electricity delivery system will be an important component of Puerto Rico's economic growth.

Facilities:

Facility 1: We recommend an IG 80 for Fac.1 reflective of its junior ranking vis-à-vis the Authority's Bonds.

Facility 2: We recommend an IG 83 for Fac. 2, 2a & 3 reflective of its senior ranking vis-à-vis the Authority's Bonds, and the priority ranking of payments to fuel suppliers classified as current expenses under the 1974 Trust Agreement.

NON-FINANCIAL COVENANTS AND CONDITIONS

Additional indebtedness permitted, including indebtedness senior in ranking to Facility #1, provided that after incurring such indebtedness, the Borrower maintains a DSC ratio of at least 1.20x of combined debt service on its Senior Obligations and at least 1.00x of combined debt service on All of its indebtedness. (Met)

BUSINESS AND INDUSTRY OVERVIEW

Business/ Industry: The Authority supplies virtually all of the electric power consumed in the Commonwealth and is one of the largest municipal utilities in the US. As of June 30, 2011, it served approximately 1.5 million clients and had \$9.9 bn Plant in Service investment. The Authority's five production facilities, together with two private co-generation facilities (EcoElectrica and AES) with long-term power purchase contracts with the Authority, have a dependable generating capacity of 4,878 megawatts ("MW"). As of ~~December 31~~ **CN: June 30**, 2011, the Authority had 2,450 circuit miles of transmission lines and 32,633 circuit miles of distribution lines. In September 2005, the Authority realized a

historical peak load of 3,685 MW. For the twelve months ended June 30, 2011, the average percentage of the Authority's generating capacity available for service ("equivalent availability"), which includes the two co-generation facilities, was 79%.

Environmental: IERR 5 (491 – Electric Power Systems Industries): The facilities and operations of the Authority are subject to regulations under numerous Federal and Commonwealth environmental laws, including Clean Air Act, Clean Water Act, and the National Pollutant Discharge Elimination System (NPDES).

In February 1992, the Environmental Protection Agency (EPA) performed an inspection of various facilities of the Authority, which identified several alleged instances of non-compliance related to the Authority's air, water and oil spill prevention control and countermeasures compliance programs. As a result, the Authority entered into a Consent Decree requiring the improvement and implementation of compliance programs and operations in order to assure compliance with environmental laws and regulations. Among other things, the Authority agreed to reduce the sulfur content in the No. 6 fuel oil used in certain generating units to 0.5% or less. As of March 2009, the Authority had achieved a level of compliance with the Air Quality Compliance Program and with the Clean Water Act regulations in excess of 99%. Since September 2004, the Authority has not been notified of any non-compliance of environmental requirements. Currently, PREPA is insured for environmental liabilities for incidents exceeding \$300 million. Any incidents below this amount are covered from PREPA's self-insurance fund.

A waiver was approved as per A&C dated June 15, 2009, with respect to Scotiabank's Environmental Policy requiring all clients with an IERR of 5 to provide the Bank with a Consultant's Report. Borrower's Credit Agreements with bondholders and with the bank syndicate requires disclosure of any environmental litigation. Also, the Government Accounting Standards Board (GASB) Statement #49 requires governments to disclose information about their pollution remediation obligations in the notes to its financial statements. The Agent Bank is not aware of any event or circumstance occurring since our most recent environmental assessment dated April 7, 2009 regarding the Borrower, or the Borrower's properties, which may have or could in the future materially adversely affect the environmental rating of the Borrower. The Bank does not hold real estate as security for its facilities, and as such we consider that the due diligence performed with the Environmental Checklist Management Systems is adequate within the context of the existing credit relationship.

Management: A Government Board, comprised of nine members, directs PREPA. The Secretary of Transportation and Public Works of the Commonwealth serves *ex officio* as a member of the Board, and the Governor appoints six other members. The remaining two members are representatives of the Authority's clients. PREPA's management team is headed by Otoniel Cruz Carrillo, who began working with the Authority since 1984. Until his appointment Mr. Cruz served on various senior management positions, most recently as the Director of Customer Service. PREPA's Finance Director is Mr. Nelson Morales; prior to his appointment he served as Chief Financial Officer for the PR Ports Authority. Prior to joining the public sector, Mr. Morales held various management positions for over 20 years in the financial services industry in Puerto Rico and New York city, with Lehman Brothers, Merrill Lynch and Citigroup.

Ownership/Corporate Governance: PREPA is a public corporation and governmental instrumentality of the Commonwealth that was created in 1941 through Act No. 83 of the Legislature of Puerto Rico, approved May 2, 1941, as amended (the "Act"). It was created for the purpose of conserving, developing and utilizing the water and the power resources of the Commonwealth to promote the general welfare of the Commonwealth. The Authority has broad powers under the Act, including, among others: to make contracts; to acquire properties by eminent domain or otherwise; to borrow money and to issue bonds for any of its corporate purposes; to secure the payment of its bonds and all other obligations by pledge of its revenues; to determine, fix, alter, charge and collect reasonable rates, fees, rentals and other charges for use of its facilities; and to have complete control and supervision of its properties and activities. In addition, the Authority has the power to create, acquire and maintain corporations, partnerships or subsidiary corporations.

HISTORICAL AND PROJECTED PERFORMANCE

Fiscal Year Ending June 30th	Actual			(Projections)				
USD mm	2009	2010	2011	2012	2013	2014	2015	2016
Fuel Oil (\$/Barrel)	76.23	76.55	95.91	117.09	110.93	105.00	105.89	102.63
Generated KWh (000)	15,987	16,673	15,535	15,244	14,487	14,000	13,526	13,474
Purchased KWh (000)	6,664	6,907	7,087	6,739	7,214	7,770	8,477	8,864
Total Generation (MWHr ,000)	22,651	23,580	22,621	21,983	21,701	21,770	22,003	22,338
Energy Sold (MWHr ,000)	18,512	19,235	18,501	19,190	19,264	19,380	19,560	19,560
Revenue (cents per KWhr)	21.65	21.66	23.92	-	-	-	-	-
Revenues*	4,007	4,166	4,411	4,925	4,767	4,641	4,679	4,731
Fuel and Purchased Power	2,592	2,701	2,952	3,474	3,275	3,162	3,187	3,221
Other Operating Expenses	786	728	753	721	692	671	658	651
Total Expenses	3,378	3,429	3,705	4,195	3,967	3,833	3,845	3,872
Net Revenues (EBITDA)*	629	737	706	730	800	808	834	859
EBITDA Margin	16%	18%	16%	15%	17%	17%	18%	18%
Interest Expense	290	280	308	171	332	359	365	360
Principal Repayment	173	152	190	156	194	204	214	245
Total Debt Service	463	432	498	327	526	563	579	605
Total Interest Coverage	2.17	2.63	2.29	4.27	2.41	2.25	2.28	2.39
Total Debt Service Coverage	1.36	1.71	1.42	2.23	1.52	1.44	1.44	1.42

* As defined in the Trust Agreement of 1974

FY11: Revenues were \$4.4 billion, a 5.9% increase from the prior year as a result of an increase in the revenues from the fuel adjustment charge due to the 14.2% increase in the costs incurred by the Authority for the purchase of fuel oil during the period, compared to the prior year. However, Net Revenues were \$706.0 million, representing a decrease of \$30.6 million, or 4.2%, from previous period. The decrease was primarily the result of a 3.8% decrease in electric energy sales (in kWh) and increases in maintenance expenses of \$11.3million, or 5.4%, and in transmission and distribution expenses of \$15.6 million, or 9.7%. Current Expenses, which include fuel and purchased power, maintenance, administrative and general expenses, among others, were \$3.7 billion for the year, an 8.1% increase from the prior year. Fuel and purchased power expenses, the principal component of the Authority's Current Expenses, are passed on to clients through a separate fuel adjustment charge included in electric service rates. The Authority's revenues from its basic charges (which exclude the fuel adjustment charge) decreased by 3.0% from fiscal year 2010 to fiscal year 2011 as a result of the decrease in electric energy sales. Excluding fuel and purchased power expenses, Current Expenses increased from \$728.4 million for fiscal year 2010 to \$752.9 million for fiscal year 2011, or 3.4%, as a result of the increases in maintenance and transmission and distribution expenses mentioned above. Total Debt Service Coverage as defined was of 1.42x.

Projections: The Authority revised its prior projections to consider the following factors: (i) further reductions in operating expenses in those fiscal years of \$29 million, \$50 million, \$63 million and \$70 million, respectively, expected to be achieved as a result of the implementation of further expense reduction initiatives, and (ii) additional revenues of \$5 million per fiscal year from theft reduction initiatives. The projections set forth above show an aggregate reduction in operating expenses (excluding fuel, purchased power and maintenance) by fiscal year 2016 of \$102 million, or 19%, compared to the level of these operating expenses in fiscal year 2011. The expense reduction initiatives include, among others, the restructuring of supply chain processes, customer service and collection processes and general and administrative processes, improvement of inventory management, and headcount reductions through attrition.

Downside Stress and Repayment Analysis

PREPA FY11 (USD mm)	Base Case	Downside Revenues	Reduction in Revenues vs Base Case	Downside Revenues & Interest Rate	Change vs Base Case
EBITDA	\$706	\$498	41.7%	\$521	35%

Debt Service	\$498	\$498		\$521	-5%
DSCR (times)	1.42	1.00		1.00	

Our downside stress scenario reflects that a 41.7% reduction in EBITDA would be necessary to challenge debt service coverage. We also stressed the interest rate by 300 bps on the Authority’s variable debt, which would increase Borrower’s debt service by 5%. Under this second scenario, a 35% reduction in EBITDA would be necessary to challenge debt service coverage. Approximately 97% of PREPA’s long term debt is fixed and additionally has various hedge agreements in place to cover its interest rate exposure.

As at June 30th, 2011 (USD 000's)	Discount	Book Value	Discounted Value	Enterprise Value
Cash and Equivalent	100%	623	623	EBITDA (2011) 706
Investments	80%	617	494	Acquisition Multiple 9.6
Accounts Receivable - Government	50%	464	232	Enterprise Value 6,769
Accounts Receivable - Private	80%	720	576	
Accounts Receivable - Other	50%	639	320	Short Term Debt 150
Inventories	50%	228	114	Long Term Debt 7,781
- Payables and Accrued	100%	-1,252	-1,252	Junior Debt 78
PP&E, net	65%	5,792	3,765	8,009
Construction in Progress	65%	1,020	663	Less:
Total Assets		8,851	5,534	Cash Reserves 1,240
Fuel Line		150	150	Net Debt 6,769
Bonds		7,781	7,781	
Total Senior Debt		7,931	7,931	
Senior Coverage		1.12	0.70	
Assets available to Pari passu		920	0	
Pari passu Debt		78	78	
Pari passu Coverage		11.79	-	Coverage 1.00

Borrower’s main Plant-in-Service Investment (PP&E) is the generating, transmission, and distribution infrastructure covering the entire island. Accounts receivable are primarily for services provided to the government and its agencies and the private sector, mostly residential customers, net of allowances for doubtful accounts primarily from government collections. In a liquidation scenario, PREPA’s book assets would not be enough to completely keep the Bank and other creditors safe. However, a more realistic scenario would call for the government to shore up or cure any default, or ultimately privatize parts of the Authority selling them as going concerns. Based on FY2011 EBITDA of USD 706mm, a multiple of 9.6x would be required to keep all creditors whole (net of reserves). Since PREPA operates as a monopoly, it would command a premium upon the unlikely event of a privatization process.

CN: For FYE’11, A/Rs increased by 21%, from US\$977MM to US\$1,184MM mainly due to delays in collections from the government sector. A/Rs from the government sector increased 34.3% from US\$346MM to US\$464MM. Mitigant: According to S&P, legislation passed recently requires the government’s Office of Management and Budget to estimate the future cost of electricity for agencies whose operation depends on the government’s general fund and to coordinate with the Treasury Department to make payments directly to PREPA at the beginning of each month.

CUSTOMER CONTACT / ANCILLARY BUSINESS / PROFITABILITY

SBPR maintains regular contact with the Borrower as well as with the Government Development Bank as fiscal agent of the Commonwealth and all PR government entities. SBPR executives (Diego Masola SVP, José Maldonado VP, Juan Boscio and Evanthea Georas CMS) have held meetings to present and discuss financing proposals and services. Among them: CMS proposal - Evanthea Georas Aug/2011. Other conversations have been held with Ignacio Canto, GDB Treasurer in regards to fuel price hedging for PREPA during Nov/2011. Latest contact has been through the request for Facility #3 presented herein.

Pricing on existing Fac.1 is in place contractually until 2014. Through our participation in proposed Fac.2, the profitability of this relationship would generate a ROEE in excess of 100% and a NIAT of USD3.5MM. Interest income on government loans booked at SBPR is exempt from the Commonwealth of Puerto Rico income, municipal license and personal property taxes.

TOTAL CREDIT LINES WITH OTHER BANKS

The Authority obtains most of its financing through issues of Power Revenue Bonds pursuant to the 1974 Agreement principally for the purpose of financing the cost of improvements and refunding existing obligations seeking to improve its debt service obligations. Currently, the Authority has approximately USD 7.5 bn in outstanding bond obligations. PREPA currently has a \$260mm Fuel Line in place with Citibank, which will co-exist with proposed of Fac. 2.

BANKING:

Ricardo Fishman	Diego Masola
Vice President and	Senior Vice President
Deputy Head, CBC	Corporate and
Credit Solutions Unit Head	Commercial Banking

Prepared by: José I. Altieri, Vice President Credit Solutions
cc: José A. Maldonado, Vice President Corporate Banking
Jose R. Torres, AVP Credit Solutions

ATTACHMENTS:

Customer Information Appendix
Pricing Appendix
Bank Syndicate List
Conditions Appendix
Business Description Appendix (including Management and Industry information)
CPM

We have made inquiries with the Borrower and are not aware of any event or circumstance occurring since the date of the most recent environmental assessment regarding the Borrower, or the Borrower’s properties which may have or could in the future materially adversely affect the environmental rating of the Borrower.

TOTAL CREDITS TO THE CONNECTION

Commonwealth of Puerto Rico
Connection Sheet
4/5/2012

USD (000's)	O/S		Auth		Proposed	
	Total	Non-Credit	Total	Non-Credit	Total	Non-Credit
A) Request Before Us						
Scotiabank de Puerto Rico						
PR Electric Power Auth	95,193		155,193		305,193	
	95,193		155,193		305,193	
B) Other Connected Accounts						
Scotiabank de Puerto Rico						
Commonwealth of Puerto Rico	50,000		50,000		50,000	
Economic Dev. Bank	3,680		8,000		8,000	
PR Tourism Company	9,439		76,000		76,000	
CRIM	42,710		50,000		50,000	
Municipio de Carolina	9,895		9,895		9,895	
Patronato de Monumentos de SJ (note 2)	10,000		10,000		10,000	
FIDEVI (note 2)	15,000		15,000		15,000	
Commissioner of Fin. Instit.	100		100		100	
PR Conservation Trust Fund of PR (note 2)	15,000		15,000		15,000	
CCHPR Hospitality LLC (note 3)	59,454		59,454		59,454	
West Coast	13,775		13,775		13,775	
PR Trade & Export	7,365		7,365		7,365	
Empresas Loyola	6,399		6,399		6,399	
Other Two Name Papers (note 4)	12,147		12,147		12,147	
Government Development Bank	75,000		80,000		180,000	
SBPR Sub-total	329,964		413,135		513,135	
The Bank of Nova Scotia - Hato Rev						
Commonwealth of Puerto Rico (note 1)	115,332		115,332		115,332	
Economic Dev. Bank	-		500		500	
PR Hwy & Trans Auth	203,419		203,419		203,419	
PR Metropolitan Bus Authority	37,400		37,400		37,400	
PR Electric Power Auth	-		30,000		30,000	
West Coast	41,326		41,326		41,326	
BNS Sub-total	397,477		427,977		427,977	
Sub-total	727,441	-	841,112	-	941,112	-
Total Credit Exposure	822,634	-	996,305	-	1,246,305	-
			-			
Exposure > 1 yr						
Commonwealth of PR (DPLC's) (note 1)			115,332			
Commonwealth of PR (GO's)			(250,000)			
PR Tourism Co			76,000			
PR Trade & Export			7,365			
PR Electric Power Auth			5,818			
Municipio de Carolina			9,895			
Patronato de Monumentos de SJ (note 2)			10,000			
FIDEVI (note 2)			15,000			
PR Conservation Trust Fund of PR (note 2)			15,000			
CCHPR Hospitality LLC (note 3)			59,454			
West Coast			13,775			
Empresas Loyola			6,399			
Other Two Name Papers (note 4)			12,147			
			96,185			

Notes:

- 1 Expected to be settled by April 30, 2012.
- 2 Non-recourse obligations payable from GDB Notes - to comply with CRA regulatory requirements
- 3 A US\$59.5MM NR i/n/o CCHPR Hospitality LLC (Sheraton Convention Center Hotel) is guaranteed by the Tourism Development Fund and is included in the connection total.
- 4 Other Two Name Papers (RG Judicial System and Real Estate Properties)

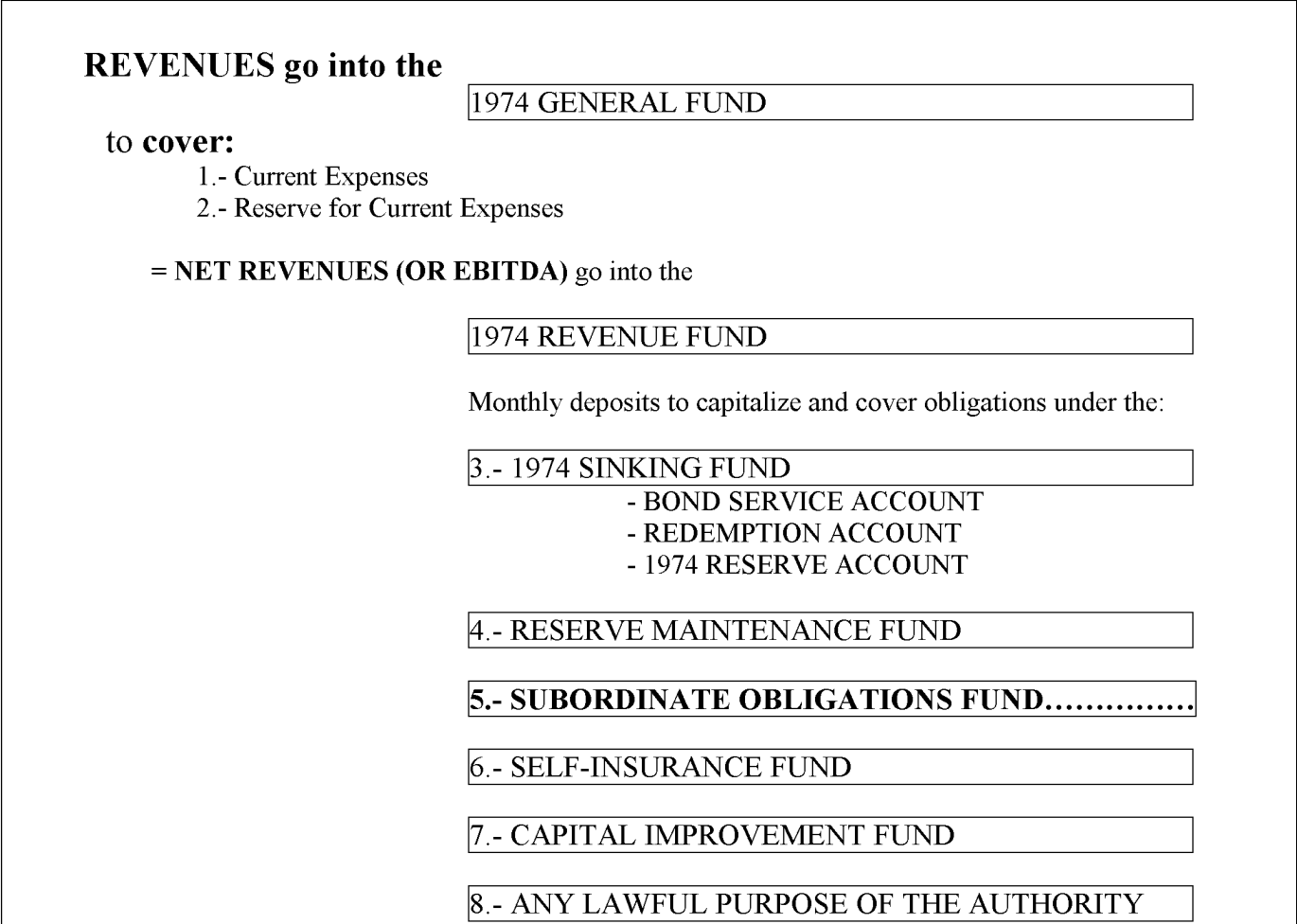
SECURITY APPENDIX

Fac.1:

Unsecured (TNW of USD -347MM @ 6/30/11). PREPA, a public corporation and an instrumentality of the Commonwealth of Puerto Rico, is the monopoly provider of electric power. All indebtedness incurred under the Facilities are valid and binding obligations of the Borrower, payable from PREPA’s Subordinate Obligations Fund established under the Trust Agreement, dated as of January 1, 1974.

Facilities are payable solely from the Net Revenues of the System after payment of the Current Expenses of the Authority and any reserve therefore, and payment of the Authority’s Revenue Bonds and any reserve therefore under the Sinking Fund. All indebtedness incurred under the Facilities are valid and binding obligations of the Borrower, payable from **Subordinate Obligations Fund** established under the Trust Agreement, dated as of January 1, 1974, as amended by and between the Borrower and the U.S. Bank Trust National Association (the “Trust Agreement”) to the credit of which fund the Borrower has covenanted to deposit available moneys held to the credit of the Revenue Fund to pay the amounts required to be paid or accrued with respect to the Facilities and the Subordinated Obligations as the same become due and payable, in accordance with and subject to the terms and conditions of the Trust Agreement.

The following schematic is a representation of the cascade of payment of the Authority:



System means all the properties owned and operated by the Authority as a single integrated system in connection with the production, distribution or sale of electric energy, the acquisition or construction of which was financed in whole or in part from the proceeds of bonds or from moneys deposited to certain accounts established under the 1974 Agreement, or (to the extent specified by the Authority) from certain subordinated obligations.

Revenues means all moneys received by the Authority as a result of the ownership or operation of the System, proceeds of certain insurance, and certain investment income.

Current Expenses means the Authority’s reasonable and necessary current expenses of maintaining, repairing and operating the System, which include Fuel, purchased power (e.g. from EcoElectrica and AES), Other production expenses, transmission and distribution costs, customer accounting and collection, administrative and general, and maintenance.

The Authority has covenanted to deposit in the 1974 Sinking Fund a sufficient amount of such Revenues (after payment of Current Expenses) to pay the principal of and the interest on all the bonds and to provide a reserve therefore.

Rate Covenant

The Authority has covenanted in the 1974 Agreement to fix, charge and collect reasonable rates and charges so that Revenues of the system will be sufficient to pay Current Expenses and to provide an amount at least equal to 120% of the

aggregate Principal and Interest Requirements for the next fiscal year on account of all outstanding bonds, reduced by any accrued interest thereon for such fiscal year.

For purposes of calculating Principal and Interest Requirements under the rate covenant and the additional bonds tests described below, the accreted value of any capital appreciation bonds of the Authority on their maturity dates are included as principal due and payable on said maturity dates. The accreted value at any date of a capital appreciation bond currently outstanding equals the original principal amount of such capital appreciation bond plus the interest accrued from its date of issuance to such date, based upon the interest rate used to calculate the yields thereof, compounded in the manner provided in the 1974 Agreement, and for future issues of capital appreciation bonds will be determined as provided in the respective resolutions of the Authority authorizing such issues.

Reserve Account

The Authority has covenanted in the 1974 Agreement to accumulate in the 1974 Reserve Account an amount equal to the interest payable on all outstanding Power Revenue Bonds within the next 12 months, provided that for Power Revenue Bonds issued for other than refunding purposes, the amount to be so deposited in any month need not exceed one-sixtieth of the amount of the increase in the interest payable within the next 12 months resulting from the issuance of such Power Revenue Bonds. In connection with the capital appreciation bonds of the Authority, the minimum amount required to be on deposit in the 1974 Reserve Account with respect to the interest accrued thereon is to be derived from the interest rate used to calculate the assumed yields through their maturity times the Accreted Value of such Power Revenue Bonds determined in the manner provided in the 1974 Agreement on the valuation date therefore occurring on or after the first day of the twelfth month succeeding the date of calculation.

Reserve Maintenance Fund, Self-insurance Fund and Capital Improvement Fund

The 1974 Agreement establishes the Reserve Maintenance Fund, the Self-insurance Fund and the Capital Improvement Fund. Revenues are deposited monthly into each of such Funds after the required deposits into the 1974 Sinking Fund as set forth in the schematic representation above for purposes of

- (a) paying the cost of unusual or extraordinary maintenance or repairs, maintenance or repairs not recurring annually and renewals and replacements, including major items of equipment, in the case of the Reserve Maintenance Fund,
- (b) paying the cost of repairing, replacing or reconstructing any property damaged or destroyed from, or extraordinary expenses incurred as a result of, a cause which is not covered by insurance required by the 1974 Agreement, in the case of the Self-insurance Fund, and
- (c) paying the cost of anticipated extensions and improvements which cost has not otherwise been provided for from the proceeds of the Power Revenue Bonds, in the case of the Capital Improvement Fund.

Each of these Funds serves as an additional reserve for the payment of principal of and interest on Power Revenue Bonds and meeting the Amortization

Subordinate Obligations

The Authority may incur or issue obligations for any proper corporate purpose secured by a pledge of moneys in the Subordinate Obligations Fund. If the Authority incurs any such obligations, Net Revenues of the Authority must be deposited monthly to the credit of the Subordinate Obligations Fund (after the required deposits have been made to the 1974 Sinking Fund and the Reserve Maintenance Fund) in amounts sufficient to pay such obligations as they become due.

The Authority may, in connection with the incurrence of any such obligations, limit the deposit to the Reserve Maintenance Fund as described above to not more than \$400,000 per month, notwithstanding any higher amounts recommended by the Authority's Consulting Engineers. If such deposit is so limited, the Authority will be required, immediately after each monthly deposit to the Subordinate Obligations Fund, to deposit to the Reserve Maintenance Fund (and prior to any deposits to the Self-insurance Fund and the Capital Improvement Fund) the lesser of the amount remaining in the 1974 Revenue Fund and the amount of any such deficiency.

Unless a particular project financed with any such obligations is specified by the Authority as being part of the System, any revenues attributable to such project will not be pledged to the payment of Bonds and any expenses associated with such project will not be payable from Revenues as Current Expenses of the System.

Exclusive to Facility 2

1. Subject to a Credit Agreement and other documentation which will include usual conditions, covenants, events of default, representations and warranties for facilities of this type including:
 - (a) Cross Default and Cross Acceleration to other material agreements.
 - (b) No Change of Control provisions.
 - (c) Material judgments.
2. Receipt of opinion / certificate of tax-exempt status of the Facility.
3. Opinions regarding, amongst other things, that the Facility shall constitute Senior Obligations under the 1974 Trust Agreement.
4. No material adverse change prior to closing.
5. Direct advances are payable after 90-days, unless extended or rolled over for an additional period not to exceed 180 days from initial advance date.
6. Twenty five (25) basis points over the Applicable Margin for each rollover of any amount outstanding on advances not paid within 90-days from their original draw date
7. The Applicable Margin shall increase by Twenty Five (25) basis points (0.25%) per annum from and after the date of each rating downgrade of PREPA's senior lien bonds, currently rated at 'BBB+' by S&P and 'Baa1' by Moody's.
8. Interest on the Facility shall be exempt from the Commonwealth of Puerto Rico income, municipal license and personal property taxes. Upon the occurrence of a taxability event under the Facility, the Applicable Margin shall be grossed-up to reflect the taxable status.
9. Closing of the Facilities will be contingent upon Borrower maintaining an investment grade rating from Moody's and Standard & Poor's as of the Effective Date.
10. Debt Service Coverage ("DSC") ratio of at least 1.20x of debt service on the Senior Bonds and other senior indebtedness (together, the "Senior Obligations") and at least 1.00x of combined debt service of the Senior Obligations and the Subordinated Obligations and the Facilities (the "Subordinated Obligations").
11. Advances under the facility will be rolled-over up to a maximum of 180-days from original draw date
12. Advance certificate, certifying that advances are used to cover fuel purchases, or other allowable Current Expenses, provided that no amount of advances is being used to repay any outstanding advances on any other credit facility or any existing indebtedness of the Borrower. Rollovers of any amount outstanding of existing advances over 90-days shall be noted accordingly. Additional supporting documentation shall be provided by Borrower, as required by Bond Counsel.
13. Quarterly compliance certificates duly signed by the Finance Director and Executive Director certifying to the compliance with the terms of the credit and use of funds.

NON-FINANCIAL COVENANTS – Facility 1

1. Subject to a Credit Agreement and other documentation which will include usual conditions, covenants, events of default, representations and warranties for facilities of this type including:
 - (a) Cross Default and Cross Acceleration to other material agreements including Senior Debt obligations.
 - (b) No Change of Control provisions.
 - (c) Material judgments.
2. For each fiscal year and quarter, the Borrowers shall maintain a Debt Service Coverage ("DSC") ratio of at least 1.20x of debt service on the Senior Bonds and other senior indebtedness (together, the "Senior Obligations") and at least 1.00x of combined debt service of the Senior Obligations and the Subordinated Obligations and the Facilities (the "Subordinated Obligations"). Met.
3. Additional indebtedness permitted, including indebtedness senior in ranking to the Facilities, provided that after incurring such indebtedness, the Borrower maintains a DSC ratio of at least 1.20x of combined debt service on its Senior Obligations and at least 1.00x of combined debt service on All of its indebtedness. Met.
4. Receipt of opinion / certificate of tax-exempt status of the Facilities.
5. Legal opinion from PREPA and its outside legal counsel certifying, amongst other things, that the Facilities shall constitute Subordinated Obligations under the 1974 Trust Agreement.
6. No material adverse change prior to closing and delivery of audited financial statements.
7. Facilities to rank pari-passu with the existing Subordinated Obligations loans.
8. The Term Loan may be prepaid at any time, subject to a penalty of 1.0% if prepaid prior to June 30, 2009
9. Upon the occurrence of an Event of Default, interest shall accrue at 2% above the applicable Interest Rate.
10. Additional Bonds: Additional Bonds may be issued under the 1974 Agreement for the purpose of paying all or any part of the cost of any improvements to the System or for any other proper corporate purpose of the Authority; provided that, among other requirements, Net Revenues (EBITDA) for 12 consecutive months out of the preceding 18 months, adjusted to reflect rates in effect on the date of issuance of such bonds, shall be not less than 1.2x of maximum aggregate annual Principal and Interest Requirements for all Bonds then outstanding, and that the average annual EBITDA for the five fiscal years succeeding the issuance of such bonds, adjusted to reflect any rate schedule the Authority has covenanted to put in effect during such five fiscal years, as estimated by the Authority and approved by its Consulting Engineers, shall be not less than 1.20x of the maximum aggregate annual Principal and Interest Requirements for all Bonds then outstanding and the Bonds then to be issued. Bonds may also be issued under the 1974 Agreement for the purpose of refunding all or any part of the

outstanding Bonds of any series, provided that, among other requirements, either (i) the earnings tests described before for the issuance of additional Bonds are satisfied (except that effect is given to the retirement of the bonds to be refunded) or (ii) the maximum aggregate Principal and Interest Requirements for any fiscal year thereafter on account of all outstanding Bonds and the bonds then to be issued (after giving effect to the retirement of the bonds to be refunded) shall be less than the maximum aggregate Principal and Interest Requirements on account of all outstanding Power Revenue Bonds (excluding the bonds then to be issued).

REPORTING REQUIREMENTS

1. Annual audited financial statements of the Authority within 180 days after the year-end (June 30th), as certified by an independent certified public accountant of nationally recognized standing.
2. Annual budget for the next succeeding fiscal year 60 days after the end of each fiscal year of Borrower.
3. Annual and 5-year capital expenditure budget.
4. As promptly as possible, copies of any official statement or similar statement circulated by the Authority in connection with the offering of any bonds, notes or other evidence of indebtedness.
5. Annual budget for the next succeeding fiscal year 60 days after the end of each fiscal year of Borrower.
6. Notices of default and of commencement of any material litigation.

PRICING APPENDIX

Facility 1

Pricing grid based on PREPA’s ratings as follows:

	Level 1	Level 2	Level 3	Level 4	Level 5
		Lower than Level 1 but at least	Lower than Level 2 but at least	Lower than Level 3 but at least	Lower than Level 4
Rating:	Higher than				
S&P	BBB+ or	BBB+ or	BBB or	BBB- or	BBB- or
Moody’s	Baa1	Baa1	Baa2	Baa3	Baa3
<u>Applicable spread over Libor (bps):</u>					
Fac. #1 (N/R)	65	70 ⁽¹⁾	80	105	200 ⁽³⁾

- (1) SBPR portion tax exempt
- (2) SBPR portion tax exempt
- (3) After six months, spread would increase to 300 bps.

Facility 2:

Pricing: Libor + 175 bps

Rollover Premium: Twenty five (25) basis points over the Applicable Margin for each rollover of any amount outstanding on advances not paid within 90-days from their original draw date.

Default Rate: BNS Base Rate plus 400 bps.

Downgrade Provision: The Applicable Margin shall increase by Twenty Five (25) basis points (0.25%) per annum from and after the date of each rating downgrade of PREPA’s senior lien bonds, currently rated at ‘BBB+’ by S&P and ‘Baa1’ by Moody’s.

Structuring Fee: \$150,000.00, payable to SBPR at closing date.

Interest on the portion of Facilities booked at SBPR are exempt from the Commonwealth of Puerto Rico income, municipal license and personal property taxes. Upon the occurrence of taxability event under the Facilities the Applicable Margin shall be adjusted to reflect the taxable status.

Facility 2a: Libor + 175 bps

Default Rate: 200 bps over the otherwise applicable interest rate.

Interest on the portion of Facilities booked at SBPR are exempt from the Commonwealth of Puerto Rico income, municipal license and personal property taxes. Upon the occurrence of taxability event under the Facilities the Applicable Margin shall be adjusted to reflect the taxable status.

BANK SYNDICATE LIST APPENDIX

List of Participants in Syndicate including all BNS sub-participants as at April 2012

<u>Fac 1- N/R</u>	<u>NAME OF LENDER</u>	<u>AMOUNT (USD)</u>	<u>PERCENTAGE</u>
1.	BANCO POPULAR DE PUERTO RICO	13,067,913	64.83%
2.	SCOTIABANK DE PUERTO RICO	5,193,431	25.76%
3.	FIRSTBANK PUERTO RICO	1,896,723	9.41%
TOTAL:		\$ 20,158,077	100.00%

BUSINESS DESCRIPTION APPENDIX

Puerto Rico Electric Power Authority supplies virtually all of the electric power consumed in the Commonwealth and is one of the largest municipal utilities in the US. As of June 30, 2011, it served approximately 1.5 million clients and had \$4.1 bn plant in Service investment based on original cost. The Authority’s five production facilities, together with two private co-generation facilities (EcoElectrica and AES) with long-term power purchase contracts with the Authority, have a dependable generating capacity of 4,878 megawatts (“MW”). As of June 30, 2011, the Authority had 2,450 circuit miles of transmission lines and 32,633 circuit miles of distribution lines. In September 2005, the Authority realized a historical peak load of 3,685 MW. For the twelve months ended June 30, 2011, the average percentage of the Authority’s generating capacity available for service (“equivalent availability”), which includes the two co-generation facilities, was 79%, up from 72% for fiscal year 1995.

Puerto Rico’s electric power system serves the Island’s ~ 4.2MM population, through a generation, transmission and distribution infrastructure managed and over sighted by the Puerto Rico Electric Power Authority (“PREPA”). PREPA was created in 1941 as a public corporation and governmental instrumentality of the Commonwealth of Puerto Rico for the purpose of conserving, developing and utilizing the water and power resources in order to promote the general welfare of the Commonwealth. PREPA produces, transmits and distributes virtually all of the electric power consumed in Puerto Rico, serving a market of approximately 1.5MM clients.

Adequacy of Capacity

Electric utilities provide reliable service by establishing a level of dependable generating capacity, which is at least equal to their load plus a reserve sufficient to allow for scheduled maintenance, unscheduled outages (described below), reductions in generating capacity due to partial outages, and other unforeseen events.

Unlike most United States electric utilities, which are able to purchase power from neighboring systems in the event of unscheduled outages of generating units or temporary surges in demand, PREPA, as an island utility, is not currently able to do so. In addition, the absence of significant seasonal variations in demand results in a relatively high load factor (75.8% in fiscal year 2011), which affords PREPA less flexibility to schedule maintenance. Therefore, PREPA must have greater total reserve capacity than other United States utilities to cover instances of generating unit outages (scheduled and unscheduled, partial or total).

Improvements to the Authority’s generating units since the early 1990s have extended their life and increased their availability, thereby substantially improving the System’s equivalent availability. This has enabled the Authority to improve the quality of service to its clients. When coupled with the additional generating capacity included in the capacity expansion plan, maintaining the level of equivalent availability at current levels should allow the Authority to provide a better quality of service to its clients and meet forecasted increases in demand.

PREPA’s program to extend the life and increase the availability of its generating units is composed of two parts.

- a) The first is a comprehensive preventive maintenance program pursuant to which PREPA continuously trains its maintenance employees and adheres to a schedule designed to ensure proper operating levels of all major generating units by removing units from service at regular intervals for necessary maintenance (“scheduled outages”).
- b) The second part of this program is a design modification program which includes a commitment by PREPA to improve the operation of generating units and the ability of units to operate at design capability and to reduce the risk of units being forced out of service or being forced to operate at partial output (“forced or unscheduled outages”). About 1.2 billion in capital expenditures for the five fiscal years ending June 30, 2011 for production plant was spent for such design modification program.

The table below shows annualized equivalent availability and the equivalent forced outage rate (the average percentage of total dependable generating capacity which is unavailable throughout the year due to forced outages or partial generating capacity outages) for fiscal years 2007 through 2011.

Years Ended June 30th	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Equivalent availability	84%	80%	76%	78%	78.9%
Equivalent forced outage rate	10%	15%	16%	12%	15.8%

For planning purposes, PREPA determines adequacy of capacity using probabilistic analytic methods widely used throughout the electric utility industry. The use of these methods takes into account the unique operational aspects of PREPA.

By more effectively utilizing scheduled outages, and by implementing major design modifications, the Authority has reduced the need for extended maintenance downtime and increased the overall reliability of all of its generating facilities. In addition, by including the EcoEléctrica and AES-PR facilities the Authority improved its availability even further. The additional reserve capacity represented by these two cogeneration facilities gives the Authority more flexibility in scheduling maintenance periods on its own generation facilities and favorably affects the System’s equivalent availability. The Authority calculates that each percentage point increase of System availability is equivalent to adding approximately 90 MW of available capacity to the System.

Projected Load Growth

Projections of future load growth are a key component in PREPA’s capacity planning. In its financial and capacity planning, PREPA receives information from three sources relating to economic activity: Econométrica Inc., Inter-American University, and the Commonwealth Planning Board.

The Inter-American University uses a macroeconomic model developed in conjunction with Global Insight. Econométrica and the Commonwealth Planning Board use data provided by Government Development Bank in association with Global Insight. PREPA’s forecasts of electric energy sales and income are based in part on the correlations between the

consumption of electricity and various economic and financial activities in the Commonwealth as represented in the above-mentioned models. PREPA continuously monitors actual performance relative to its forecasts and prepares new forecasts at least once a year.

PREPA incorporates the highest of the three forecasts as its base case for planning the additional generating capacity required by the System. Recognizing the inherent uncertainty of forecasting growth, PREPA ordinarily uses the lowest of the three forecasts in preparing its base case revenue forecast. Outside Consulting Engineers¹ review PREPA’s projections of future load growth and estimates of peak load.

The following table summarizes PREPA’s projected peak load, dependable capacity, reserve margin and dependable reserve margin through fiscal year 2012 under the peak load projections shown below and incorporating the assumptions of additional capacity from the repowering of San Juan Steam Plant units 5 and 6, and the replacement of the four 21 MW units in Mayaguez with four 55 MW units. Projections of future peak load (for capacity planning purposes) from fiscal year 2012 to fiscal year 2016 prepared by PREPA show an average annual increase of 0.6%.

Fiscal years Ending June 30,	Peak Load (MW)	Dependable Capacity (MW)	Reserve Margin (MW)	Dependable Reserve Margin (%)
2012	3,365	5,839	2,474	74
2013	3,381	5,839	2,458	73
2014	3,410	5,839	2,429	71
2015	3,454	5,839	2,385	69
2016	3,497	5,839	2,342	67

The Consulting Engineers have examined in detail PREPA’s proposed long-term capacity expansion plan (and the methodologies and assumptions upon which it is based) and have found its development to be reasonable and generally consistent with utility industry practice and appropriate for PREPA.

Historical Capital Improvement and Financing Program

Capital improvements and their financing are made pursuant to a program established by PREPA and reviewed annually by the Consulting Engineers. The program for the last five fiscal years ended June 30, 2011 and for the six-month period ending December 31, 2011 is shown in the following table.

	Fiscal Years Ended June 30 (in thousands)					Total	Six-Months Ended December 31,	
	2007	2008	2009	2010	2011		2010	2011
Capital Improvements								
Production plant	\$111,628	\$134,100	\$246,570	\$139,360	\$151,040	\$682,698	\$ 70,579	\$ 84,524
Transmission facilities	132,771	170,144	91,200	113,760	71,743	580,628	36,328	33,717
Distribution facilities	104,326	111,348	105,828	124,362	143,461	590,325	64,363	13,363
Other*	36,513	51,457	37,180	6,303	48,226	179,689	12,768	14,589
Total	\$385,238	\$467,049	\$480,778	\$263,785	\$374,470	\$2,139,330	\$184,038	\$146,193

* Includes general fund and buildings, general equipment, preliminary surveys and investigations.

Projected Five-Year Capital Improvement and Financing Program

The projected capital improvement program for the five fiscal years ending June 30, 2016 aggregates approximately \$1.72 billion. It is currently estimated that that substantially all of capital improvement program will be financed with borrowed funds. Estimated capital costs reflect, among other factors, construction contingency allowances and annual cost escalations.

The five-year capital improvement program includes \$644 million for production plant and new generation. Of this amount, PREPA projects that approximately \$104 million will be invested during FY12 in its production plant for conversion of generating units to dual fuel units.

The Consulting Engineers have examined the projected capital improvement program and found it to be reasonable. The capital improvement program is subject to periodic review and adjustment because of changes in expected demand, environmental requirements, design, equipment delivery schedules, costs of labor, equipment and materials, interest rates and other factors. The following table presents a summary of the projected capital improvement program for the five fiscal years ending June 30, 2016 and its projected financing.

¹ Washington Group International (“Washington Group”), operating through its affiliate Washington Engineers P.S.C., serves as the Consulting Engineers.

Projected Capital Improvement Program
(in thousands)

	Fiscal Years Ending June 30					Total
	2011	2013	2014	2015	2016	
Capital Improvements						
Production plant.....	\$104,340	\$121,500	\$131,345	\$130,743	\$115,073	\$ 644,308
Transmission facilities.....	78,110	57,100	82,894	82,463	83,797	381,364
Distribution facilities.....	87,205	82,955	105,629	94,089	83,448	453,326
Other ⁽¹⁾	58,845	18,745	53,132	45,695	42,680	239,717
Total.....	<u>\$328,500</u>	<u>\$300,300</u>	<u>\$392,600</u>	<u>\$372,995</u>	<u>\$325,000</u>	<u>\$1,778,905</u>

⁽¹⁾ Includes general and auxiliary buildings, general equipment, preliminary surveys and investigation.

Generation

As of June 30, 2011, the total nameplate rating of PREPA-owned generating facilities of the System was 4,937 MW and their total dependable generating capacity was 4,878 MW. In addition, PREPA began purchasing power under a long-term power purchase agreement from EcoEléctrica in 2000, with a net dependable generating capacity of 507 MW. In 2002, a new 454 coal based generating facility owned and operated by AES-PR was connected to the system. PREPA has dispatch control over both the EcoEléctrica and AES facilities, and their output is fully integrated into the system.

PREPA’s electricity generation capacity is generated in its five main power plants: Complejo Aguirre, Costa Sur, Palo Seco, San Juan and Arecibo, with a fraction coming from small hydroelectric dams.

Existing Generating Facilities (in MW)

Generating Plants	Nameplate Rating (82 Units)	Dependable Generating Capacity					
		Total (82 Units)	Steam (16 Units)	Combined Cycle Power Blocks (13 Units)	Combustion Turbine (25 Units)	Hydro (21 Units)	Other (7 Units)
Aguirre.....	1,554	1,534	900 ⁽¹⁾	592 ⁽²⁾	42 ⁽³⁾	-	-
Costa Sur.....	1,030	1,032	990	-	42 ⁽³⁾	-	-
Palo Seco.....	731	728	602	-	126 ⁽⁴⁾	-	-
San Juan.....	870	840	400	440 ⁽⁵⁾	-	-	-
Mayaguez.....	220	220	-	-	220 ⁽⁶⁾	-	-
Arecibo.....	248	248	-	-	248 ⁽⁷⁾	-	-
Other Locations.....	284	276	-	-	168 ⁽⁸⁾	100	8 ⁽⁹⁾
Subtotal.....	4,937	4,878	2,892	1,032	846	100	8
Peñuelas – EcoEléctrica.....	507	507	-	507 ⁽¹⁰⁾	-	-	-
Guayama – AES-PR.....	454	454 ⁽¹¹⁾	454 ⁽¹¹⁾	-	-	-	-
Renewable – Windmar.....	2 ⁽¹²⁾	-	-	-	-	-	-
Total.....	<u>5,900</u>	<u>5,839</u>	<u>3,346</u>	<u>1,539</u>	<u>846</u>	<u>100</u>	<u>8</u>

⁽¹⁾ Consists of the Authority's two largest units, Aguirre Units 1 and 2, each with a dependable generating capacity of 452 MW.
⁽²⁾ Consists of two combined-cycle power blocks, each made up of four 59 MW combustion turbine units and one 96 MW steam-turbine unit.
⁽³⁾ Consists of two 21 MW units.
⁽⁴⁾ Consists of six 21 MW units.
⁽⁵⁾ Consists of two combined cycle power block, each made up of one 160 MW combustion turbine unit and one 50 MW steam-turbine unit.
⁽⁶⁾ Consists of four 55 MW units.
⁽⁷⁾ Consists of three 83 MW units.
⁽⁸⁾ Consists of eight 21 MW units.
⁽⁹⁾ Consists of five diesel units in the Municipality of Culebra and two in the Municipality of Vieques with an aggregate dependable capacity of approximately 8 MW held on standby reserve.
⁽¹⁰⁾ Consists of one combined cycle power block, made up of two 165 MW combustion turbine units and a 177 MW steam turbine unit.
⁽¹¹⁾ Consists of two 227 MW units.
⁽¹²⁾ Consists of photovoltaic energy.

TRANSMISSION AND DISTRIBUTION

During the period from fiscal year 2007 to fiscal year 20011, the Authority invested \$1.2 billion (or 46.4% of its capital improvement program) in its transmission and distribution system. The capital improvement program for the five fiscal years ending June 30, 2016 includes \$811million (or 48% of such program) for transmission and distribution facilities.

Transmission

Transmission plant in service as of June 30, 2011 totaled \$2 billion based on original installed cost. The System includes n integrated electric transmission system, which permits each generating unit to provide electric power to the grid. As of December 31, 2011, there were 2,450 circuit miles of Transmission lines and 175 transmission switchyards. Transmission lines include 364 circuit miles of 230 kV lines, 710 circuit miles of 115 kV lines and 1,375 circuit miles of 38 kV lines. There are also 60 miles of underground 38 kV cable and 55 miles of 38 kV submarine cable. Seventy-four transmission substations located at generating sites and at other sites throughout the island have a total transformer capacity of 18,535,250 kilovolt amperes (“kVA”).

Distribution

Investment in distribution plant in service as of June 30, 2011 totaled \$3.3 billion based on original cost. The capital improvement program for the five fiscal years ending June 30, 2016 includes \$404 million (or 24% of the total) for extensions and improvements to existing distribution lines to serve new clients and substations for accommodating new load growth areas. As of December 31, 2011, the electric distribution system included approximately 32,633 circuit miles of distribution lines and 1,112 distribution substations (784 are client-owned) with a total installed transformer capacity of 7,717,330 kVA.

The Consulting Engineers are of the opinion that the Authority's production plant and transmission and distribution system are in good repair and sound operating condition.

ADVICE AND COUNSEL

DATE AUTH:	April 17, 2012
MEMO TO:	Scotiabank de Puerto Rico
FROM:	GRM - ICCRM
CUSTOMER:	Puerto Rico Electric Power Authority
GRM MGMT Team	Fernando Correa – Director Edgard Vences Pacheco – Senior Manager
Resp. GRM Officer	Abraham Sanchez – Senior Manager
ATTACHMENTS:	1035 dated April 11, 2012
LEVEL:	RPC (SSM/RHP/BJP/SPH/AHWB)
MRA Refresh Date	April 30, 2013
BIS Approach	AIRB
Next A/R	April 30, 2013

COMMENTARY:

We provide positive advice and counsel on 2011 Annual Review and on your proposed new USD 300MM Senior Credit Facility as presented, with the view that if the syndication goes well your Bank is to reduce target hold to USD 250MM.

This advice and counsel is granted in the understanding that drawdowns under Facilities 2) and 2a) will never exceed USD 300MM, acknowledging that Fac. 2a) will be cancelled on June 16, 2012.

We also provide favorable advice and counsel for the renewal of Borrower and Facilities rating at IG 83 (except for Facility 1, which we rate at IG 80 based on its junior ranking vis-à-vis PREPA's Bonds).

Given its status as government dictated monopoly, we deem PREPA to be Sovereign Exposure and not Power Exposure. Accordingly, we will reclassify this Borrower to its corresponding industry in our records.

Finally, we also consider your Bank should reduce its overall exposure to the Government of Puerto Rico to USD 1.2 billion by fiscal year end.

In providing your bank with this advice and counsel, we caution that our opinion is based solely upon the information provided to us and without the benefit of the local market knowledge which you enjoy. Prior to your final decision on this matter, you should conduct that due diligence which you consider necessary to satisfy yourself that the information provided to this office accurately and fully identifies the risks inherent in the recommendations made therein.

FOLLOW-UP INSTRUCTIONS (to Banking):

- *This is a bid to expire by May 31, 2012, please advice bid's fate by that date*
- *Please send us confirmation of the repayment of fac. 2a) no later than June 30, 2012.*
- *Please submit F1201611 in due course*

ADDITIONAL INSTRUCTIONS TO GRM International Credit Admin ("ICA"):

- *Please reclassify BR Code of Borrower to BR 406 – National Public Authorities (from BR 420 – Regulated Utilities)*

[Original signed by]

*Edgard Vences Pacheco
Senior Manager*

*Fernando Correa
Director*